

Microfinance for Poverty Alleviation

What's Right and What's Wrong

Centre for Policy Dialogue (CPD) organised a dialogue on *Microfinance for Poverty Alleviation: What's Right and What's Wrong* on 26 July 2011, at the CIRDAP Auditorium, Dhaka. *Dr Atiur Rahman*, Governor, Bangladesh Bank was present as the Chief Guest at the event, with *Dr Qazi Kholiquzzaman Ahmad*, Chairman, Palli Karma-Sahayak Foundation (PKSF) attending as the Special Guest. The session was chaired by *Ms Khushi Kabir*, Member, CPD Board of Trustees and Coordinator, Nijera Kori. *Professor David Hulme*, Head, Institute for Development Policy and Management (IDPM), University of Manchester, UK presented the keynote paper, which was prepared jointly with *Professor Thankom Arun*, Director, Institute of Global Finance and Development, Lancashire Business School, University of Central Lancashire, UK. *Professor M A Baqui Khalily*, Department of Finance, University of Dhaka and *Professor Syed M Hashemi*, Executive Director, BRAC Development Institute, BRAC University were present as the Designated Discussants. *Professor Mustafizur Rahman*, Executive Director, CPD initiated the dialogue with an introductory statement.

Key Issues Discussed _____

- Microfinance has come to be recognised worldwide as a critically important poverty-combating instrument as it provides collateral-free access to financial resources. It provides opportunity to create self-employments and income-generating activities for the very poor in the society, most of whom are women. Microfinance also offers an opportunity to mobilise savings on the part of the poor.
- Despite all its contributions to the developing economies, microfinance has recently drawn attention because of criticisms raised against its operational mechanism covering financial and social aspects. This has brought forth the need to review what works and what does not work for microfinance.

What does not Work _____

- A large part of microcredit does not reach the ultra poor, and so has limited impact with regard to reducing poverty.
- Microfinance institutions (MFIs) sometimes create pressure on clients for repayment. The field staffs are under pressure to achieve numerical targets, and tend to ignore their social responsibilities. Also, scaling up of microfinance activities creates distance between the decision makers and actual clients, resulting in failure to grasp the field situation and realities.
- MFI interest rates are high compared to formal bank loan rates. The design of various financial products are not poor-friendly to the extent required.
- Rapid expansion of the volume of microfinance lending can create an oversupply of loans, encouraging clients to incur debt burden which is beyond their capacity to manage, and unsustainable in the long-run.

What Works _____

- Microfinance offers the poor with access to basic financial services, e.g. loans, savings and insurance, which are not otherwise available for the poor.
- It provides increased choices for livelihood, access to resources for innovation and capacity development, and chance for savings.
- It brings vibrancy in the local economy through increased employment opportunities, improved purchasing power, and diversification in economic activities.

- MFIs have generated large-scale employment opportunities for the educated class, and more importantly, this is widely dispersed across the country.
- Social benefit of microfinance is significant, particularly in terms of 'empowerment'. Evidence shows that access to resource, particularly in the case of Bangladeshi women, has increased physical mobility of the beneficiaries, leading to enhanced economic opportunities for those women.

Suggested Recommendations _____

- MFIs need to follow sound lending practice backed by transparency in fixing interest rates, fairness in imposition of fees and charges, terms and conditions of finances, and with regard to funding disclosure.
- Providing fair cost microfinance services to poorest of the poor people should be the topmost agenda for the MFIs.
- Microfinance should work towards enhancing the purchasing power of their clients and turning them into consumers of their own produces.
- Cooperatives could serve as an institution to enhance the scope of income in group.
- Indicators of field staff performance of MFIs need to be re-assessed and revised so that the relationship with clients are more human-oriented, and not just financial target-oriented.
- MFIs' surplus fund should be utilised for more developmental activities. Social investment, climatic impacts – these are the priority areas that MFIs should put emphasis on.
- Microfinance should serve as a mechanism to access resource, education, healthcare, market and innovation for the poor. There is a need for necessary capacity building to enable the poor to use these accessed resource for productive purposes. Such an integrated approach for credit disbursement can be termed as *Microcredit Plus*.
- Regulatory authorities/agencies will need to put a ceiling on the interest rate of microloans at a credible level for both MFIs and their clients. They will also have to withstand political pressure for not lowering the loan ceiling.
- Amendment of banking rules is essential for giving the MFIs an opportunity to introduce more saving services and other diversified financial products to the poor.
- Government could encourage MFIs to reduce supervisory cost. In this regard, offering card-based financial services in partnership with mobile and ICT companies should be encouraged by the Bangladesh Bank.

- Microcredit Regulatory Authority of Bangladesh should be strengthened with more autonomy and skilled human resources so that it can act like a central bank for the microfinance activities.
- Clear distinction should be there between MFI activity and other NGO operations.
- Government should make the best use of the strong network maintained by the MFIs in delivering services such as health, education and also for efficient operationalisation of the social safety net programmes.
- There should be recognition that microfinance cannot eradicate extreme poverty entirely; adequate public investment is required to achieve this challenging target.
- Incremental expansion of microfinance industry and focus on savings, as much as on loans, should be the way forward for this sector.



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